

OWSLEY COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2008

OWSLEY COUNTY SCHOOL DISTRICT

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OWSLEY COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Owsley County School District
Booneville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Owsley County School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Owsley County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Owsley County School District as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008 on our consideration of Owsley County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 7 and 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



The CPA. Never Underestimate The Value.™

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Owsley County School District's basic financial statements. The additional information shown on pages 34 and 35 and 37 through 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 40 through 43 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Christian, Sturgeon & Associates, PSC

London, Kentucky
November 14, 2008

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OWSLEY COUNTY SCHOOL DISTRICT - BOONEVILLE, KY
YEAR ENDED JUNE 30, 2008**

As management of the Owsley County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$950,172 and the ending cash balance was \$707,469. This represents a decrease of \$242,703. The decrease in the ending cash balance is a result of declining enrollment, declining tax base, declining revenue from investments, unfunded state mandated salary increases and significant increases in costs of purchased goods and services.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward proficiency.
- Our District remains committed to educational excellence by keeping teacher salaries comparable to those of surrounding areas and the student-teacher ratio low.
- The General Fund had \$6.2 million in revenues, which primarily consisted of the state program (SEEK), property and motor vehicle taxes, and earned interest income.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
OWSLEY COUNTY SCHOOL DISTRICT - BOONEVILLE, KY
YEAR ENDED JUNE 30, 2008

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 8-9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10-17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 18-33 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3.5 million as of June 30, 2008.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
OWSLEY COUNTY SCHOOL DISTRICT - BOONEVILLE, KY
YEAR ENDED JUNE 30, 2008

Net Assets for the period ending June 30, 2008

This is the sixth year that the District is following GASB 34 and comparing assets, liabilities and net assets. 2008 District-Wide Net Assets compared to 2007 follows:

	2008	2007
Current assets	\$ 1,390,464	\$ 1,410,986
Non-current assets	5,968,392	4,737,585
Total Assets	7,358,856	6,148,571
Current liabilities	493,604	423,139
Non-current liabilities	3,387,845	2,782,546
Total Liabilities	3,881,449	3,205,685
Net Assets		
Investments in capital assets (net of debt)	1,565,200	1,622,523
Unreserved fund balance	1,912,207	1,320,363
Total Net Assets	\$ 3,477,407	\$ 2,942,886

There have been no significant change in the financial position of the District since the last audit.

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2008, net of Interfund transfers and bond proceeds, were \$6.2 million.
- General fund budget compared to actual revenue varied slightly from line item to line item except for the other revenue from state sources item with the ending actual revenue being \$1,448,116 more than budget or approximately thirty percentage points. This variance is primarily the result of reflecting on-behalf amounts in revenue. The on-behalf revenue is not a budget item.
- The total cost of all general fund programs and services was \$6.2 million net of debt service.
- General fund budget expenditures to actual varied significantly. The primary reason for the variance is the on-behalf amounts are included in actual expenditures but those on-behalf amounts are not budgeted.

The following table presents a summary of governmental funds revenue and expenditures, excluding transfers, for the fiscal years ended June 30, 2008 and 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
OWSLEY COUNTY SCHOOL DISTRICT - BOONEVILLE, KY
YEAR ENDED JUNE 30, 2008

	<u>2008</u>	<u>2007</u>
REVENUES		
Local revenue sources	\$ 910,932	\$ 1,016,569
State revenue sources	6,171,624	5,632,468
Federal revenue	2,803,143	2,570,606
Other sources	<u>86,864</u>	<u>94,000</u>
Total revenues	<u>9,972,563</u>	<u>9,313,643</u>
EXPENDITURES		
Instruction	5,981,017	5,651,656
Student support services	326,609	316,307
Instructional support	520,017	492,406
District administration	328,481	328,830
School administration	400,402	378,760
Business support	168,645	148,224
Plant operations	843,164	852,843
Student transportation	688,845	638,007
Community service activities	7,601	402,659
Facility acquisition and construction	1,162,504	-
Debt Service	<u>377,596</u>	<u>327,561</u>
Total expenditures	<u>10,804,881</u>	<u>9,537,253</u>
Revenue in Excess of (Less than) Expenditures	<u>\$ (832,318)</u>	<u>\$ (223,610)</u>

General Fund Revenue

The majority of general fund revenue was derived from state funding with local taxes making up 6% of total general fund revenue.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
OWSLEY COUNTY SCHOOL DISTRICT - BOONEVILLE, KY
YEAR ENDED JUNE 30, 2008**

School Allocation

Regular Instruction accounts for 67% of the school level expenditures.

Central Office Allocation

Central support services expenditures were Transportation 8%, Maintenance and Operations 9%, and Business Functions 6%.

BUDGETARY IMPLICATIONS

In Kentucky public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The board adopted a budget with a \$232,380 contingency (2.3%). The District ended the year with a \$744,685 contingency.

CONTACTING THE OWSLEY COUNTY SCHOOL DISTRICT MANAGEMENT

Questions regarding this report should be directed to the Superintendent (606) 593-6363 or to Jerry McIntosh, Director of Financial Services (606) 593-6363 or by mail at Route 3, Box 340, Booneville, Kentucky 41314.

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 596,705	\$ 110,764	\$ 707,469
SFCC current receivable of bonds payable	40,088	-	40,088
Accounts receivable	560,558	60,009	620,567
Inventory	-	22,340	22,340
Total current assets	1,197,351	193,113	1,390,464
Noncurrent Assets			
SFCC long-term receivable of bond principal	809,124	-	809,124
Capital assets	10,683,155	280,123	10,963,278
Less: accumulated depreciation	(5,538,343)	(265,667)	(5,804,010)
Total noncurrent assets	5,953,936	14,456	5,968,392
Total assets	\$ 7,151,287	\$ 207,569	\$ 7,358,856
LIABILITIES			
Current Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Deferred revenue	242,751	-	242,751
Current portion of bond obligations	250,853	-	250,853
Total current liabilities	493,604	-	493,604
Noncurrent Liabilities			
Noncurrent portion of bond obligations	3,343,215	-	3,343,215
Noncurrent portion of accrued sick leave	44,630	-	44,630
Total noncurrent liabilities	3,387,845	-	3,387,845
Total liabilities	3,881,449	-	3,881,449
NET ASSETS			
Invested in capital assets, net of related debt	1,550,744	14,456	1,565,200
Unrestricted	1,719,094	193,113	1,912,207
Total net assets	3,269,838	207,569	3,477,407
Total liabilities and net assets	\$ 7,151,287	\$ 207,569	\$ 7,358,856

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

FUNCTIONS/PROGRAMS

Governmental Activities

	Program Revenues			Net (Expense) Revenue and		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Instruction	\$ 6,069,222	\$ -	\$ -	\$ (3,777,338)	\$ -	\$ (3,777,338)
Support services:						
Student	331,977	-	-	(291,399)	-	(291,399)
Instruction staff	537,409	40,578	-	(124,104)	-	(124,104)
District administrative	336,229	413,305	-	(333,679)	-	(333,679)
School administrative	404,818	2,550	-	(404,818)	-	(404,818)
Business	177,336	-	-	(174,867)	-	(174,867)
Plant operation and maintenance	1,057,459	2,469	-	(970,133)	-	(970,133)
Student transportation	742,091	87,326	-	(610,053)	-	(610,053)
Facilities acquisition and construction	127,687	132,038	245,691	118,004	-	118,004
Community service activities	8,378	421,520	-	413,142	-	413,142
Other	-	301,954	-	301,954	-	301,954
Interest on long-term debt	152,208	-	-	(152,208)	-	(152,208)
Total governmental activities	9,944,814	3,693,624	245,691	(6,005,499)	-	(6,005,499)

Business-type Activities

Food service	752,387	550,917	27,370	-	2,925	2,925
Total business-type activities	752,387	550,917	27,370	-	2,925	2,925
Total school district	\$ 10,697,201	\$ 4,244,541	\$ 273,061	(6,005,499)	2,925	(6,002,574)

General Revenues

Property taxes	395,196	-	-	395,196
Motor vehicle taxes	96,435	-	-	96,435
Unmined minerals tax	18,846	-	-	18,846
Other taxes	182,020	-	-	182,020
Investment earnings	86,864	-	-	86,864
State aid formula grants	5,676,760	-	-	5,676,760
Miscellaneous	80,200	774	774	80,974
Total general revenues	6,536,321	774	774	6,537,095
Change in net assets	530,822	3,699	-	534,521
Net assets - beginning	2,739,016	203,870	-	2,942,886
Net assets - ending	\$ 3,269,838	\$ 207,569	\$ -	\$ 3,477,407

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2008

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 686,459	\$ (259,581)	\$ 169,827	\$ 596,705
Accounts receivable	58,226	502,332	-	560,558
Total assets	<u>\$ 744,685</u>	<u>\$ 242,751</u>	<u>\$ 169,827</u>	<u>\$ 1,157,263</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	242,751	-	242,751
Total liabilities	<u>-</u>	<u>242,751</u>	<u>-</u>	<u>242,751</u>
Fund Balances				
Unreserved, designated for	-	-	169,827	169,827
Unreserved	744,685	-	-	744,685
Total fund balances	<u>744,685</u>	<u>-</u>	<u>169,827</u>	<u>914,512</u>
Total liabilities and fund balances	<u>\$ 744,685</u>	<u>\$ 242,751</u>	<u>\$ 169,827</u>	<u>\$ 1,157,263</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2008

Total fund balance per fund financial statements	\$ 914,512
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	5,144,812
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Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	849,212
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Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(3,638,698)</u>
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Net assets of governmental activities	<u>\$ 3,269,838</u>
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See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources				
Property taxes	\$ 341,534	\$ -	\$ 53,662	\$ 395,196
Motor vehicle taxes	96,435	-	-	96,435
Unmined minerals taxes	18,846	-	-	18,846
Other taxes	182,020	-	-	182,020
Earnings on investments	83,544	-	3,320	86,864
Other local revenues	53,242	165,193	-	218,435
State sources				
SEEK	4,235,421	-	71,530	4,306,951
Other	1,191,186	423,334	250,153	1,864,673
Federal sources	-	2,803,143	-	2,803,143
Total revenues	6,202,228	3,391,670	378,665	9,972,563
Expenditures				
Instruction	3,662,224	2,318,793	-	5,981,017
Support services				
Student	286,031	40,578	-	326,609
Instruction staff	106,712	413,305	-	520,017
District administration	325,931	2,550	-	328,481
School administration	400,402	-	-	400,402
Business	166,176	2,469	-	168,645
Plant operation and maintenance	715,775	87,326	40,063	843,164
Student transportation	556,807	132,038	-	688,845
Community service activities	7,601	-	-	7,601
Facility acquisition and construction	3,560	421,520	737,424	1,162,504
Debt service	-	-	377,596	377,596
Total expenditures	6,231,219	3,418,579	1,155,083	10,804,881
Excess (deficit) of revenues over expenditures	(28,991)	(26,909)	(776,418)	(832,318)
Other Financing Sources (Uses)				
Proceeds from the sale of bonds	-	-	755,000	755,000
Operating transfers in	-	26,909	1,053,646	1,080,555
Operating transfers out	(63,265)	-	(1,017,290)	(1,080,555)
Total other financing sources (uses)	(63,265)	26,909	791,356	755,000
Net change in fund balances	(92,256)	-	14,938	(77,318)
Fund balance, July 1, 2007	836,941	-	154,889	991,830
Fund balance, June 30, 2008	\$ 744,685	\$ -	\$ 169,827	\$ 914,512

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2008

Net change in total fund balances per fund financial statements	\$ (77,318)
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Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	634,679
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The proceeds of receipts of accounts receivable provide current financial resources and are reported in this fund financial statement but they are presented as a reduction of assets in the statement of net assets.	(41,144)
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The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(908,110)
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The recognition of SFCC accounts receivable do not provide current financial resources and are not reported in this fund financial statement but they are presented as an increase of assets in the statement of net assets.	670,369
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Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	225,388
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Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>26,958</u>
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Change in net assets of governmental activities	<u>\$ 530,822</u>
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See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2008

ASSETS	<u>Food Service Fund</u>
Current Assets	
Cash and cash equivalents	\$ 110,764
Other receivables	60,009
Inventory	<u>22,340</u>
Total current assets	<u>193,113</u>
Noncurrent Assets	
Capital assets	280,123
Less: accumulated depreciation	<u>(265,667)</u>
Total noncurrent assets	<u>14,456</u>
Total assets	<u>207,569</u>
NET ASSETS	
Invested in capital assets, net of related debt	14,456
Unrestricted	<u>193,113</u>
Total net assets	<u>\$ 207,569</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
Year Ended June 30, 2008

	Food Service Fund
Operating Revenues	
Food service sales	\$ 136,563
Other operating revenues	<u>40,462</u>
Total operating revenues	<u>177,025</u>
Operating Expenses	
Salaries and wages	315,312
Professional and contract services	3,000
Supplies and materials	384,889
Depreciation	9,280
Other operating expenses	<u>39,906</u>
Total operating expenses	<u>752,387</u>
Operating income (loss)	<u>(575,362)</u>
Nonoperating revenues (expenses)	
Federal grants	483,117
State grants	67,800
Donated commodities	27,370
Interest income	<u>774</u>
Total nonoperating revenues (expenses)	<u>579,061</u>
Net income (loss)	3,699
Net assets, July 1, 2007	<u>203,870</u>
Net assets, June 30, 2008	<u>\$ 207,569</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2008

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash received from lunchroom sales	\$ 136,563
Cash received from other activities	40,462
Cash payments to employees for services	(315,312)
Cash payments to suppliers for goods and services	(360,519)
Cash payments for other operating activities	<u>(39,906)</u>
Net cash (used in) operating activities	<u>(538,712)</u>
Cash Flows from Investing Activities	
Receipt of interest income	<u>774</u>
Net cash provided by investing activities	<u>774</u>
Cash Flows from Noncapital Financing Activities	
Nonoperating grants received	<u>548,539</u>
Net cash provided by noncapital financing activities	<u>548,539</u>
Net increase (decrease) in cash and cash equivalents	10,601
Cash and cash equivalents - beginning of year	<u>100,163</u>
Cash and cash equivalents - end of year	<u>\$ 110,764</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities	
Operating income (loss)	\$ (575,362)
Adjustments to Reconcile Operating Income (Loss) to	
Net Cash Provided (Used) by Operating Activities	
Depreciation	9,280
Donated commodities	<u>27,370</u>
Net Cash (Used in) Operating Activities	<u>\$ (538,712)</u>
Non-Cash Non-Capital Financing Activities	
Donated commodities received from federal government	<u>\$ 27,370</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
June 30, 2008

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 203,038
Accounts receivable	<u>153</u>
Total assets	<u>\$ 203,191</u>
Liabilities	
Accounts payable	\$ 3,550
Due to student groups	<u>199,641</u>
Total liabilities	<u>\$ 203,191</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Owsley County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Owsley County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Owsley County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements.

Owsley County School District Finance Corporation - In a prior year the Board of Education resolved to authorize the establishment of the Owsley County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency of the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation

District-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

The district-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Government Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation - continued

I. Government Fund Types - continued

- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 40 through 42. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. This is a nonmajor fund of the District.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a nonmajor fund of the District.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a nonmajor fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, and for the payment of interest on general obligation notes payable, as required by Kentucky law. This is a nonmajor fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation - continued

II. Proprietary Fund Types (Enterprise Fund) - continued

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Kentucky Department of Education publication *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting - continued

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property taxes are levied by September 30 on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2008, to finance the General Fund operations were \$.422 per \$100 valuation for real property, \$.466 per \$100 valuation for business personal property and \$.578 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5 -10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories

On district-wide financial statements inventories of supplies and materials are stated at cost and are expensed when used. On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method. No inventory is recorded in the general fund as items are ordered and purchased on an as needed basis and no significant amounts are kept on hand.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

Encumbrances

Encumbrances are reported as a reservation of fund balance and are not reported as expenditures until incurred. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2008 in the governmental funds balance sheet.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2008, \$273,574 of the District's bank balance was exposed to custodial credit risk because coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging bank's trust department in the District's name were not sufficient. The securities pledged as collateral cannot be moved or redeemed without prior approval of the District. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE C - CASH AND CASH EQUIVALENTS- CONTINUED

Cash and cash equivalents at June 30, 2008 consisted of the following:

	Bank Balance	Book Balance
Farmers State Bank	<u>\$ 1,782,876</u>	<u>\$ 910,507</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 596,705
Proprietary funds	110,764
Agency funds	<u>203,038</u>
	<u>\$ 910,507</u>

NOTE D - RECEIVABLES

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. While the District receives revenues from many different sources throughout each year, accounts and grants receivable from outside sources may be grouped into the following categories, (as stated in the District-wide financial statements):

	June 30, 2008 Balance
Accounts receivable from outside sources	
Accounts receivable	\$ 32,593
Taxes receivable	25,633
Grants receivable	<u>562,341</u>
	<u>\$ 620,567</u>

Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables when qualifying expenditures are incurred.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE E - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008 was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2008</u>
Land and land improvements	\$ 326,479	\$ -	\$ -	\$ 326,479
Buildings and improvements	6,618,097	13,324	-	6,631,421
Technology	1,111,034	124,619	4,268	1,231,385
Vehicles	1,335,458	150,022	-	1,485,480
General equipment	261,538	9,428	-	270,966
Construction in progress	-	737,424	-	737,424
Totals at historical cost	9,652,606	1,034,817	4,268	10,683,155
Less accumulated depreciation	5,142,473	400,138	4,268	5,538,343
 Governmental Activities Capital Assets - Net	 \$ 4,510,133	 \$ 634,679	 \$ -	 \$ 5,144,812
 <u>Business-Type Activities</u>				
Buildings	\$ 7,400	\$ -	\$ -	\$ 7,400
Technology	76,542	-	-	76,542
General equipment	196,181	-	-	196,181
Totals at historical cost	280,123	-	-	280,123
Less accumulated depreciation	256,387	9,280	-	265,667
 Business-Type Activities Capital Assets - Net	 \$ 23,736	 \$ (9,280)	 \$ -	 \$ 14,456

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$ 88,205
Student	5,368
Instruction staff	17,392
District administrative	7,748
School administrative	4,416
Business	8,691
Plant operation and maintenance	214,295
Student transportation	53,246
Community service	777
	<u>\$ 400,138</u>

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE F - LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date, and interest rates of bonded debt and lease obligations are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1998	\$ 48,225	4.10% - 5.00%
1999	55,963	3.50% - 4.20%
2000	113,605	4.15% - 4.60%
2001	1,040,000	3.75% - 5.00%
2001	57,284	3.50% - 4.70%
2002	1,715,000	1.90% - 4.50%
2004	445,000	2.75% - 4.50%
2006	65,103	3.30% - 4.00%
2007	755,000	3.90% - 4.30%
2008	153,110	3.00% - 3.75%

The District, through the General Fund, including the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Owsley County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District, through the General Fund, is also obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kentucky Interlocal School Transportation Association for the purchase of school buses.

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Assets since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2008 for debt service (principal and interest) are as follows:

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE F - LONG-TERM OBLIGATIONS - CONTINUED

Year	Owsley County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2008-09	\$ 210,765	\$ 114,378	\$ 40,088	\$ 35,905	\$ 401,136
2009-10	213,529	106,025	41,610	34,383	395,547
2010-11	214,293	98,105	43,206	32,786	388,390
2011-12	206,939	89,946	44,863	31,129	372,877
2012-13	210,202	81,696	46,724	29,359	367,981
2013-14	217,452	73,493	40,103	27,245	358,293
2014-15	230,389	64,473	41,778	25,569	362,209
2015-16	239,387	54,827	43,524	23,824	361,562
2016-17	238,970	44,489	45,357	21,991	350,807
2017-18	247,595	34,020	47,267	20,081	348,963
2018-19	95,644	22,510	49,356	17,994	185,504
2019-20	103,466	18,074	51,534	16,813	189,887
2020-21	101,189	13,350	53,838	13,536	181,913
2021-22	51,087	8,579	38,913	11,159	109,738
2022-23	49,432	6,317	40,568	9,505	105,822
2023-24	52,687	4,102	42,313	7,761	106,863
2024-25	55,868	1,634	44,132	5,941	107,575
2025-26	3,971	256	46,029	4,044	54,300
2026-27	<u>1,991</u>	<u>85</u>	<u>48,009</u>	<u>2,064</u>	<u>52,149</u>
	<u>\$ 2,744,856</u>	<u>\$ 836,359</u>	<u>\$ 849,212</u>	<u>\$ 371,089</u>	<u>\$ 4,801,516</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2008 is as follows:

Governmental Activities	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bonded debt and lease obligations	\$ 2,911,346	\$ 908,110	\$ 225,388	\$ 3,594,068
Accrued sick leave	<u>71,588</u>	<u>-</u>	<u>26,958</u>	<u>44,630</u>
	<u>\$ 2,982,934</u>	<u>\$ 908,110</u>	<u>\$ 252,346</u>	<u>\$ 3,638,698</u>

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE G - RETIREMENT PLANS

The District contributes to the Teachers' Retirement System of Kentucky ("KTRS"), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes ("KRS").

Certified employees are covered under KTRS. KTRS also establishes the contribution rates. Funding for the plan is provided through member payroll withholdings of 9.855% of salary and matching State contributions. The matching contributions are paid by the Federal program for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost-sharing, multiple employer, public employers' retirement system. Funding for the plan is provided through payroll withholdings of 5% and a District contribution of 16.17% of the employee's total compensation subject to contribution.

The District's total payroll for the year was \$5,921,745. The payroll for employees covered under KTRS was \$3,966,032 and for CERS was \$1,863,516.

The contribution requirement for CERS for the years ended June 30, 2008, 2007 and 2006 were \$394,506, \$314,429 and \$272,775, respectively. The District has no contribution requirement to KTRS.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The KTRS and CERS each issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 (KTRS) and Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 (CERS).

The District also offers employees the option to participate in a defined contribution plan under Sections 403(B), 401(K) and 457 of the Internal Revenue Code. All employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE H - LEASES

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2008, aggregate cost for equipment and copier rentals was \$12,770.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2008

NOTE I - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of moneys advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J - LITIGATION

The District is subject to legal actions in various states of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE L - RISK MANAGEMENT

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

General Fund	\$92,256
Debt Service Fund	2,638

NOTE N - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
Year Ended June 30, 2008

NOTE O - TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Funds Transfer	\$ 26,909
Operating	General	Debt Service	Debt Service	36,356
Operating	Building	Debt Service	Debt Service	230,823
Operating	Capital Outlay	Debt Service	Debt Service	31,467
Operating	Debt Service	Construction	Transfer Bonds Issue	755,000

NOTE P - INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2008, there were no interfund balances outstanding that would be reflected in the financial statements.

NOTE Q - ON-BEHALF OF PAYMENTS

For the year ended June 30, 2008 total payments of \$1,237,267 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenues, expenses and changes in fund balances. These revenues and expenditures are not budgeted by the District.

SUPPLEMENTARY INFORMATION

OWSLEY COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 38,073	\$ 114,178	\$ 17,576	\$ -	\$ 169,827
Total assets	<u>\$ 38,073</u>	<u>\$ 114,178</u>	<u>\$ 17,576</u>	<u>\$ -</u>	<u>\$ 169,827</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balances					
Unreserved, designated for	38,073	114,178	17,576	-	169,827
Total fund balances	<u>38,073</u>	<u>114,178</u>	<u>17,576</u>	<u>-</u>	<u>169,827</u>
Total liabilities and fund balances	<u>\$ 38,073</u>	<u>\$ 114,178</u>	<u>\$ 17,576</u>	<u>\$ -</u>	<u>\$ 169,827</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -

NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues					
From local sources					
Property taxes	\$ -	\$ 53,662	\$ -	\$ -	\$ 53,662
Earnings on investments	-	3,000	-	320	3,320
State sources					
SEEK	71,530	-	-	-	71,530
Other	-	174,161	-	75,992	250,153
Total revenues	<u>71,530</u>	<u>230,823</u>	<u>-</u>	<u>76,312</u>	<u>378,665</u>
Expenditures					
Plant operation and maintenance	40,063	-	-	-	40,063
Facility acquisition and construction	-	-	737,424	-	737,424
Debt service	-	-	-	377,596	377,596
Total expenditures	<u>40,063</u>	<u>-</u>	<u>737,424</u>	<u>377,596</u>	<u>1,155,083</u>
Excess (deficit) of revenues over expenditures	<u>31,467</u>	<u>230,823</u>	<u>(737,424)</u>	<u>(301,284)</u>	<u>(776,418)</u>
Other financing sources (uses)					
Proceeds from the sale of bonds	-	-	-	755,000	755,000
Operating transfers in	-	-	755,000	298,646	1,053,646
Operating transfers out	(31,467)	(230,823)	-	(755,000)	(1,017,290)
Total other financing sources (uses)	<u>(31,467)</u>	<u>(230,823)</u>	<u>755,000</u>	<u>298,646</u>	<u>791,356</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>17,576</u>	<u>(2,638)</u>	<u>14,938</u>
Fund balance, July 1, 2007	<u>38,073</u>	<u>114,178</u>	<u>-</u>	<u>2,638</u>	<u>154,889</u>
Fund balance, June 30, 2008	<u>\$ 38,073</u>	<u>\$ 114,178</u>	<u>\$ 17,576</u>	<u>\$ -</u>	<u>\$ 169,827</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL-GENERAL FUND
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original Tentative</u>	<u>Final Working</u>	<u>Actual</u>	
Revenues				
From local sources				
Property taxes	\$ 287,000	\$ 287,000	\$ 341,534	\$ 54,534
Motor vehicle taxes	70,000	70,000	96,435	26,435
Unmined minerals taxes	8,000	8,000	18,846	10,846
Other taxes	150,500	150,500	182,020	31,520
Earnings on investments	70,000	70,000	83,544	13,544
State sources				
SEEK	4,156,512	4,156,512	4,235,421	78,909
Other	10,100	10,100	1,191,186	1,181,086
Other revenues	2,000	2,000	53,242	51,242
Total revenues	<u>4,754,112</u>	<u>4,754,112</u>	<u>6,202,228</u>	<u>1,448,116</u>
Expenditures				
Instruction	2,840,799	2,840,799	3,662,224	(821,425)
Support services				
Student	237,468	237,468	286,031	(48,563)
Instruction staff	108,304	108,304	106,712	1,592
District administration	306,915	306,915	325,931	(19,016)
School administration	321,590	321,590	400,402	(78,812)
Business	134,150	134,150	166,176	(32,026)
Plant operation and maintenance	745,393	745,393	715,775	29,618
Student transportation	513,119	513,119	556,807	(43,688)
Other expenditures	285,600	285,600	11,161	274,439
Total expenditures	<u>5,493,338</u>	<u>5,493,338</u>	<u>6,231,219</u>	<u>(737,881)</u>
Excess (deficit) of revenues over expenditures	<u>(739,226)</u>	<u>(739,226)</u>	<u>(28,991)</u>	<u>710,235</u>
Other Financing Sources (Uses)				
Operating transfers out	(27,400)	(27,400)	(63,265)	(35,865)
Total other financing sources (uses)	<u>(27,400)</u>	<u>(27,400)</u>	<u>(63,265)</u>	<u>(35,865)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(766,626)</u>	<u>(766,626)</u>	<u>(92,256)</u>	<u>674,370</u>
Fund balance, July 1, 2007	<u>766,626</u>	<u>766,626</u>	<u>836,941</u>	<u>70,315</u>
Fund balance, June 30, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 744,685</u>	<u>\$ 744,685</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
COMBINED BALANCE SHEET - SCHOOL ACTIVITY FUNDS
June 30, 2008

	<u>Owsley County Elementary School</u>	<u>Owsley County High School</u>	<u>Total Agency Funds</u>
ASSETS			
Cash	\$ 10,107	\$ 192,931	\$ 203,038
Accounts receivable	<u>-</u>	<u>153</u>	<u>153</u>
Total assets	<u>\$ 10,107</u>	<u>\$ 193,084</u>	<u>\$ 203,191</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 3,550	\$ -	\$ 3,550
Total liabilities	3,550	-	3,550
Fund balances:			
Unreserved	<u>6,557</u>	<u>193,084</u>	<u>199,641</u>
Total liabilities and fund balances	<u>\$ 10,107</u>	<u>\$ 193,084</u>	<u>\$ 203,191</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - SCHOOL ACTIVITY FUNDS
Year Ended June 30, 2008

	Owsley County Elementary School	Owsley County High School	Total Agency Funds
REVENUES:			
Local sources	\$ 70,276	\$ 240,949	\$ 311,225
EXPENDITURES:			
Student body activities	<u>82,933</u>	<u>264,949</u>	<u>347,882</u>
Excess (deficit) of revenues over expenditures	(12,657)	(24,000)	(36,657)
FUND BALANCE, July 1, 2007	<u>19,214</u>	<u>217,084</u>	<u>236,298</u>
FUND BALANCE, June 30, 2008	<u>\$ 6,557</u>	<u>\$ 193,084</u>	<u>\$ 199,641</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES -
OWSLEY COUNTY HIGH SCHOOL ACTIVITY FUND
Year Ended June 30, 2008

	<u>Fund Balances</u> <u>July 1, 2007</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balances</u> <u>June 30, 2008</u>
Accounts:				
Academic Team	\$ 178	\$ 6,181	\$ 6,297	\$ 62
Band	3,997	751	1,103	3,645
Baseball Club	1,204	8,806	9,696	314
Beta Club	702	9,431	9,518	615
Boys Basketball	6,631	13,692	11,407	8,916
Certified/Classified Staff	976	2,989	1,337	2,628
Cheerleaders	1,274	17,524	17,215	1,583
Class of 2007	161	-	-	161
Class of 2008	2,521	22,990	24,922	589
Class of 2009	2,064	983	579	2,468
Class of 2010	200	695	421	474
Class of 2011	482	2,166	1,430	1,218
Class of 2012	230	90	-	320
Class of 2013	-	1,635	667	968
Classroom Creations	3,053	1,281	1,181	3,153
Concessions	-	16,196	16,196	-
Cross Country	3,092	3,777	3,732	3,137
Drug Free Club	457	-	20	437
Dance Team	667	-	-	667
Equestrian Club	120	-	-	120
E.K.L.N.	115	-	-	115
F.C.C.L.A.	81	1,503	1,569	15
F.C.S.	108	-	-	108
F.E.A.	700	85	-	785
F.F.A.	771	2,595	2,716	650
General Athletics	13,821	31,505	41,885	3,441
Girls Basketball	2,892	19,381	18,599	3,674
Girls Softball	1,041	4,600	4,330	1,311
Science Club	561	30	381	210
Golf	7,169	1,695	2,770	6,094
High School Academics	-	1,343	835	508
Home Economics	60	-	60	-
Jr. High Basketball	2,714	5,917	4,758	3,873
Jr. Beta Club	374	649	832	191
Kids of Stage	2,983	1,725	857	3,851
Library	14,904	6,812	9,673	12,043
Media Entertainment	-	85	20	65
Miscellaneous	7,662	34,750	33,948	8,464
Nutrition Advisory Council	2,086	-	250	1,836
N.V.T.H.S.	97	-	97	-
Outdoorsman Club	2,277	610	765	2,122
Project Access	3,260	6,870	6,853	3,277
Project Prom	2,727	1,800	3,566	961
P.T.S.O.	46	4,655	-	4,701
R.O.T.C.	29	-	-	29
Snack	62,395	16,995	27,024	52,366
T.S.A.	1,448	-	-	1,448
Tobacco Prevention	-	250	-	250
Track	1,224	2,490	2,188	1,526
Volleyball	826	2,964	3,789	1
WOCS	44,028	300	6,508	37,820
Youth Service	12,302	5,890	9,097	9,095
Yearbook/Journalism	374	405	-	779
	<u>217,084</u>	<u>265,091</u>	<u>289,091</u>	<u>193,084</u>
Inter-fund Transfers	<u>-</u>	<u>(24,142)</u>	<u>(24,142)</u>	<u>-</u>
Totals	<u>\$ 217,084</u>	<u>\$ 240,949</u>	<u>\$ 264,949</u>	<u>\$ 193,084</u>

See accompanying independent auditor's report

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Dept. of Education:			
Title I Program	84.010	33-540-3107	\$ 319,404
Title I Program	84.010	33-540-3108	<u>460,204</u>
			<u>779,608</u>
Title I, Part D School Improvements	84.010	33-540-3207	14,325
Title I, Part D School Improvements	84.010	33-540-3208	<u>22,081</u>
			<u>36,406</u>
Vocational Education	84.048	33-540-3487A	549
Vocational Education	84.048	33-540-3488	<u>14,444</u>
			<u>14,993</u>
Special Education Cluster			
Special Education	85.027	33-540-3378	188,894
Special Education, Preschool	84.173	33-540-3438	<u>22,273</u>
Total Special Education Cluster			<u>211,167</u>
Title IV, Safe and Drug Free Schools and Communities	84.186A	33-540-4066	13,574
Title IV, Safe and Drug Free Schools and Communities	84.186A	33-540-4067	<u>7,600</u>
			<u>21,174</u>
Title VI	84.298A	33-540-3348	1,613
Title II, Part D, Education Technology	84.318X	33-540-4256	7,101
Title II, Part D, Education Technology	84.318X	33-540-4257	<u>5,090</u>
			<u>12,191</u>
Commonwealth School Reform	84.332A	33-540-3086R	32,863
Reading First	84.357A	33-540-5086R	23,006
Reading First	84.357A	33-540-5087R	<u>104,559</u>
			<u>127,565</u>
Improving Teacher Quality	84.367	33-540-4017	41,026
Improving Teacher Quality	84.367	33-540-4018	<u>70,906</u>
			<u>111,932</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Year Ended June 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION - (Continued)</u>			
Rural Education Achievement Program	84.358B	33-540-3506	\$ 3,092
Rural Education Achievement Program	84.358B	33-540-3507	22,656
Rural Education Achievement Program	84.358B	33-540-3508	<u>4,260</u>
			<u>30,008</u>
Save the Children	93.575	33-540-6588	15,396
Service Learning Grant	94.004	33-540-6758	1,329
Passed Through Eastern Kentucky University:			
21st Century Communities	84.287	33-540-5506S	5,000
21st Century Communities	84.287	33-540-5507	65,520
21st Century Communities	84.287	33-540-5508	<u>40,343</u>
			<u>110,863</u>
Gear Up	84.334A	33-540-3798	14,905
Passed Through Cabinet for Workforce Development:			
Tech Prep Education	84.243	33-540-3638	<u>12,000</u>
Total U.S. Department of Education			<u>1,534,013</u>
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Passed Through Eastern Kentucky Pride:			
Pride	11.420	33-540-2708	<u>5,000</u>
Total U.S. Department of Commerce			<u>5,000</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed Through EKCEP:			
WIA Youth Program	17.259	27404708	<u>101,692</u>
Total U.S. Department of Labor			<u>101,692</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Year Ended June 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Middle Kentucky River Area Development Council :			
Headstart	93.600	04YC069	\$ 489,195
Headstart	93.600	04YC069	<u>192,953</u>
			<u>682,148</u>
Direct Award:			
Early Headstart	93.600	04YC069	371,052
Early Headstart	93.600	04YC069	<u>133,370</u>
			<u>504,422</u>
Passed Through Kentucky River District Health Department:			
Postponing Sexual Involvement	93.994	N/A	<u>700</u>
Total U.S. Department of Health and Human Services			<u>1,187,270</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Dept. of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	N/A	310,400
National School Breakfast Program	10.553	N/A	153,819
Summer Food Program	10.559	N/A	<u>18,898</u>
Total Child Nutrition Cluster			<u>483,117</u>
Passed through Kentucky Department of Agriculture:			
Food Donation	10.550	N/A	<u>27,370</u>
Total U.S. Department of Agriculture			<u>510,487</u>
Total Expenditures of Federal Awards			<u>\$ 3,338,462</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Owsley County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

NOTE C – HEADSTART/EARLY HEADSTART

The fiscal year end for the District is different than the fiscal year end for Headstart/Early Headstart; therefore, amounts reported to the Department of Health and Human Services may not reconcile with amounts reported in the Schedule of Expenditures of Federal Awards.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2008

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - unqualified

Internal control over financial reporting:

- Material weakness(es) identified _____yes _____X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____yes _____X none reported

Noncompliance material to financial statements noted?

_____yes _____X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes _____X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____yes _____X none reported

Type of auditor's report issued on compliance for major programs - unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____yes _____X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

93.600
93.600

Headstart
Early Headstart

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____X yes _____no

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
Year Ended June 30, 2008

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2008

Status of Prior Year Findings

Finding 07-01 has been corrected.

CHRISTIAN, STURGEON & ASSOCIATES, PSC

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CERTIFIED PUBLIC ACCOUNTANTS
KENTUCKY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Education
Owsley County School District
Booneville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Owsley County School District as of and for the year ended June 30, 2008, which collectively comprise the Owsley County School District's basic financial statements and have issued our report thereon dated November 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and state audit requirements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owsley County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Owsley County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*.

We noted certain matters that we reported to management of Owsley County School District in a separate letter dated November 14, 2008.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Owsley County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christian, Sturgeon & Associates, PSC

London, Kentucky
November 14, 2008

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Education
Owsley County School District
Booneville, Kentucky

Compliance

We have audited the compliance of Owsley County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Owsley County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Owsley County School District's management. Our responsibility is to express an opinion on Owsley County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and state audit requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Owsley County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Owsley County School District's compliance with those requirements.

In our opinion, Owsley County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Owsley County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Owsley County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Owsley County School District's internal control over compliance.



A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Owsley County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Christian, Sturgeon & Associates, PSC

London, Kentucky
November 14, 2008

MANAGEMENT LETTER COMMENTS

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Members of the Board Education
Owsley County School District
Booneville, Kentucky

In planning and performing our audit of the financial statements of Owsley County School District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the District's internal control in our report dated November 14, 2008. This letter does not affect our report dated November 14, 2008 on the financial statements of the Owsley County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Christian, Sturgeon & Associates, PSC

London, Kentucky
November 14, 2008



OWSLEY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
Year Ended June 30, 2008

General

Credit Card Purchases

- a. Statement of Condition – Two instances were noted where vendor's invoices were not present in the purchasing documentation for credit card purchases. Two instances were also noted where invoices were dated after the payment date.
- b. Criteria – An effective system of internal controls is necessary in order to ensure that the District pays for only those items that the District purchases and receives.
- c. Cause of Condition – The instances noted above appear to be a general oversight of those personnel involved.
- d. Recommendation – All receipts should be turned in to the accounts payable clerk at the time the credit card is returned. The accounts payable clerk should not pay any bill on the credit card statement for which she does not have proper documentation.
- e. Management's Response – The District will enhance their efforts to insure that Policies and Procedures are adhered to in all purchase/payment transactions. All receipts will be available to the accounts payable clerk prior to payment of card statement.

Pledged Securities

- a. Statement of Condition – The Owsley County School District did not have sufficient pledged collateral to cover all deposits in excess of FDIC coverage at June 30, 2008.
- b. Criteria – KRS 41.240 requires public entities that have deposits in excess of FDIC coverage to have, as collateral, securities or other obligations with a current market value equal to the deposits pledged to the public entity.
- c. Cause of Condition – When the District cashed in one of the certificates of deposit, the bank reduced the pledged securities to a level that was below the required amount.
- d. Recommendation – The District should periodically monitor the amounts on deposit and compare to the amounts pledged to ensure that pledges are sufficient.
- e. Management's Response – The District will monitor the amounts on deposit and compare to the amounts pledged to insure the pledges are sufficient.

School Activity Funds

Multiple Receipt Forms

- a. Statement of Condition - At one school (Owsley County Elementary), several instances were noted where a multiple receipt form did not have the date the teacher remitted the money.
- b. Criteria - Good internal control procedures requires the teacher collecting money from the students to fill out a multiple receipt form and take it along with the money collected to the bookkeeper, who needs to count the money with the teacher. The form then needs to be signed and dated by both parties.
- c. Cause of Condition – The teacher remitting the money to the bookkeeper failed to date the multiple receipt form.
- d. Recommendation – All personnel should be made aware of the procedures listed in the Redbook. The bookkeeper should review all forms before receiving the money to ensure completeness.
- e. Management's Response – All personnel will be trained on Redbook procedures. Financial Management Software has been purchased for Owsley County Elementary School to insure current and accurate accounting practices/procedures. Personnel will receive training in FM Software Program.

OWSLEY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS - CONTINUED
Year Ended June 30, 2008

Annual Financial Report

- a. Statement of Condition – One school (Owsley County Elementary) did not prepare a complete list of accounts receivable and accounts payable as of June 30, 2008.
- b. Criteria - The Redbook requires a list of accounts receivable and accounts payable (Form F-SA-15B) accompany the Annual School Activity Report.
- c. Cause of Condition - The bookkeeper just failed to determine and include all receivables and payables for her school at June 30, 2008.
- d. Recommendation - The annual financial reports should be amended to include a complete and revised Form F-SA-15B.
- e. Management's Response – Financial Management Software has been purchased for Owsley County Elementary School to insure current and accurate accounting practices/procedures. Personnel will receive training in FM Software Program.

Budgets

- a. Statement of Condition – One school (Owsley County Elementary) did not submit a budget to either the Superintendent or the School Board.
- b. Criteria - The Redbook requires the principal to submit an Activity Fund Budget (Form F-SA-4A) and an Internal Account Budget (Form F-SA-3) to the Superintendent by May 15 for the following year.
- c. Cause of Condition - The bookkeepers failed to prepare and submit the budgets within the appropriate timeframe.
- d. Recommendation - The activity fund budgets should be prepared and submitted to the Superintendent by the May 15 deadline.
- e. Management's Response – Financial Management Software has been purchased for Owsley County Elementary School to insure current and accurate accounting practices/procedures. Personnel will receive training in FM Software Program.

OWSLEY COUNTY SCHOOL DISTRICT

RESOLUTION OF RECOMMENDATIONS OF PRIOR YEAR MANAGEMENT LETTER POINTS

Year Ended June 30, 2008

The prior year management letter contained conditions relating to the following:

General

1. Personnel Files
2. Purchasing
3. Food Service Operations

School Activity Funds

4. Deposits Not Made in a Timely Fashion
5. Sales Taxes Paid
6. Multiple Receipt Forms

Procedures performed for the year ended June 30, 2008 did not indicate a recurrence of conditions 1, 2, 3, 4 and 5. The District appears to have adequately addressed the recommendations that were made.

Condition 6 is a repeat condition for the year ended June 30, 2008.

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Members of the Board of Education
Ms. Melinda Turner, Superintendent
Owsley County School District
Booneville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Owsley County School District as of and for the year ended June 30, 2008, and have issued our report thereon dated November 14, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 15, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Owsley County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Owsley County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Owsley County School District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Owsley County School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Owsley County School District's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 25, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Owsley County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate that an allowance for doubtful accounts is not necessary is based on from whom the receivables are due and an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to make this determination and its reasonableness in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 14, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the members of the Board of Education and management of Owsley County School District and is not intended to be and should not be used by anyone other than these specified parties.

Christian, Sturgeon & Associates, PSC

London, Kentucky
November 14, 2008